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via electronic mail and USPS delivery

Ms. Janette Lopez
Chief Deputy Director
California Managed Risk Medical Insurance Board
1000 G Street, Suite 450
Sacramento, CA 95814

**RE: EVALUATION OF SANTA CLARA COUNTY HEALTH AUTHORITY MEDICAL
LOSS RATIO EVALUATION**

Dear Ms. Lopez:

The Department of Managed Health Care (DMHC) hereby provides the Managed Risk Medical Insurance Board (MRMIB), Healthy Families Program (HFP) with the following report regarding the evaluation of Santa Clara County Health Authority (SCCHA) HFP loss ratio evaluation for the period July 1, 2005 through June 30, 2006. This report outlines the project objectives, methodology and results.

I Objectives: The purpose of the loss ratio evaluation was to evaluate the underlying payments supporting the amount reported as benefits provided to HFP subscribers and reported by SCCHA.

As part of this evaluation, DMHC performed the following:

- A Determined whether 100% of the children who received services paid by SCCHA were enrolled in the HFP at the time the services or capitated coverage were provided
- B Summarized the total capitation and benefit payments within the detailed data provided by SCCHA and compared the total payments to the amount reported on Schedule 6 submitted by SCCHA
- C Summarized the total payments made by SCCHA for the HFP subscriber, and based on the steps above, recalculated the loss ratio and compared it to the loss ratio submitted by SCCHA on Sch 6.

To achieve the objectives outlined above, DMHC performed data analysis on information provided by MRMIB and SCCHA and corresponded with management personnel at SCCHA. Primary contacts at SCCHA were Leona Butler, CEO; Mike Weatherford, CFO; Dave Campbell, CFO; Bill Leggett, CIO; Sheila Maloney, VP of Compliance & General Counsel; Paul Murphy, Internal Auditor; Ron Schmidt, Assistant CIO.

II Methodology

- A Determined whether 100% of the children who received services paid by SCCHA were enrolled in the HFP at the time the services were provided.

- 1 DMHC obtained electronic files containing Capitation, Pharmacy and Fee-For-Service (FFS) claim payments made for HFP subscribers. Additionally, the Department obtained electronic files from MRMIB of all children eligible for services as an SCCHA subscriber during the period of July 1, 2005 through June 30, 2006.
- 2 Using the two files, DMHC compared the Client Index Number (CIN) and Date of Service on SCCHA's Capitation and Fee-For-Service files to determine if there were any payments made by SCCHA for subscribers that were not eligible for benefits according to the eligibility file received from MRMIB (see Table 1).

Table 1 –Fee for Service payments for individuals that were not listed in the MRMIB file during the service period.

Table 1

Claims/capitation payments Category	Number of Claims/Services payments	Dollars (footnote 1)
Capitation Payments	795	\$18,843
Fee-for-Service Payments	30	\$1,187
Pharmacy Payments	375	\$10,397
Total	1,197	\$30,267

The amounts are not material and no audit adjustments were proposed to the Sch 6 as reported by SCCHA.

B Summarized the total benefit payments within the detailed data provided by SCCHA and compared the total payments to the amount reported on Schedule 6 submitted by SCCHA.

Using electronic files and paper documentation received from SCCHA in Section II above, and SCCHA's Sch 6, DMHC compared the total of the payments on the electronic files and paper documentation to the data reported on Sch 6. Data comparisons are exhibited in Table 2 below.

Table 2

Description	Sch 6	Plan Data	Difference
Capitation Payments	\$5,466,412	\$5,465,789	\$623
Fee-for-Service Payments	\$1,676,972	\$1,279,009	\$397,963
Pharmacy Payments	\$943,604	\$1,040,148	(\$96,544)
Total	\$8,086,988	\$7,784,946	\$302,042

The amount for Capitation Payments is not material and no adjustment is proposed to SCCHA for this cost category.

Footnote 1: This analysis represents payments made by the Plan to their contracted providers and not payments made by MRMIB to the Plans.

- C Summarized the total payments made by SCCHA for the HFP subscriber, and based on the steps above, recalculated the loss ratio and compared it to the loss ratio submitted by SCCHA on Sch 6.

Table 3
Detailed reconciliation of detailed data files to Sch 6

	CATEGORY	REPORTED ON SCHEDULE 6	BALANCE PER DMHC REVIEW	VARIANCE OVER/(UNDER)
	Subscriber Months ^{Note 1}	150,169	152,484	2,315
1	Premium Payments from State ^{Note 2}	\$10,434,073	\$10,434,073	\$0
	Affiliated Entities and Nonaffiliated Entities			
2	Incentive Payments to Affiliated Parties	\$0	\$0	\$0
3	Incentive Payments to Nonaffiliated Parties	\$0	\$0	\$0
4	Total Incentive Payments	\$0	\$0	\$0
	Expenses			
	Medical and Hospital			
5	Inpatient Services - Capitated	\$929,546	\$929,546	\$0
6	Inpatient Services - Per Diem ^{Note 3}	\$314,862	\$314,862	\$0
7	Inpatient Services - Fee for Service/Case Rate			\$0
8	Primary Professional Services - Capitated	\$4,416,731	\$4,416,731	\$0
9	Primary Professional Services - Noncapitated ^{Note 3}	\$883,714	\$485,751	(\$397,963)
10	Other Medical Professional Services - Capitated	\$120,135	\$120,135	\$0
11	Other Medical Professional Services - Noncapitated ^{Note 3}	\$403,827	\$403,827	\$0
12	Noncontracted Emerg Room and Out-of-Area Exp, not incl POS ^{Note 3}	\$74,569	\$74,569	\$0
13	POS Out-of-Network Expense	\$0		\$0
14	Pharmacy Expense ^{Note 4}	\$943,604	\$1,040,148	\$96,544
15	Other Medical Expense ^{Note 5}	\$725,545	\$322,589	(\$402,956)
16	Aggregate Write-ins for Other Medical and Hospital Expense	\$0		\$0
17	Total Medical and Hospital (lines 5 to line 16)	\$8,812,533	\$8,108,158	(\$704,375)
A	Gross Profit	\$1,621,540	\$2,325,915	
B	MEDICAL LOSS RATIO	84.46%	77.71%	

Note 1: MRMIB data includes members enrolled after the 15th of the month and retro eligibility information which was obtained from Maximus. Expectations on subscriber months was that balance per DMHC review would exceed the membership count reported by the Plan, which it has in this analysis for the aforementioned reason.

Note 2: Included in the premiums received from MRMIB by the Plan are retro adjustments for prior periods and missing are retros for subsequent periods. The examiners data utilized for the review adjusts for these missing elements causing the minor discrepancy. Amount per Plan is accepted as reported.

Note 3: Adjustment is measured by the difference between the Plan paid FFS claim data base and the amounts reported on the Schedule 6. The combined differences from line 6, 9, 11 and 12 are exhibited on line 9. The Plan has conjectured that the difference is due to a double accounting for inpatient per diem charges.

Note 4: Adjustment is measured by the difference between the Plan paid Rx claim data base and the amounts reported on the Schedule 6. The workpapers for the prior CFO computations were not available for review. The current CFO has been unable to verify the cause for the discrepancy but is in agreement that the database is the more accurate number.

Note 5: Adjustment is due to the disallowance of the Claims Dept and the MIS Dept from the Other Medical Expense category on the Schedule 6.

III Summary of Findings

- 1 Over Reported Fee-For-Service Claims - \$397,963
- 2 Under Reported Pharmacy Claims - \$(96,544)
- 3 Claims Cost Center - \$71,785
- 4 MIS Dept - \$331,171
- 5 Incentive Plan/Risk Pool, Exhibit C rewrite - \$0

IV Limitations

This analysis and report were prepared solely for the purpose of assisting MRMIB in the determination of the accuracy of payments made by SCCHA on their Sch 6 Medical Loss Ratio Evaluation. We have not performed an evaluation of the Company's internal controls within the guidelines set forth by the AICPA but have reported to you based upon the procedures performed. Our analysis has not been a detailed examination of all transactions, and cannot be relied upon to disclose errors, irregularities, or illegal acts, including fraud or defalcations that may exist.

Please feel free to call Steven Mihara, DMHC Supervisor with any questions pertaining to this report.

Sincerely,



Steven Mihara, Supervisor
Division of Financial Oversight

cc: Deborah Simmons, Federal Compliance Unit Manager, MRMIB
Mark Wright, Chief Examiner, DMHC
Stephen Babich, Supervising Examiner, DMHC

Atch: SCCHA letter dated August 5, 2008 responding to audit recommendations